FINANCIAL YEAR-END PORTFOLIO REVIEW

Overweight on midcap, smallcap, or gold? Pivot to largecaps

Unless deviation from the original allocation is drastic, rebalance by buying more of the underperforming asset class

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The end of the financial year is an ideal time to review your investment portfolio. Doing so ensures that it stays aligned with your financial goals and risk appetite.

Performance of key asset classes

Equity funds delivered modest gains. While large and smallcap funds posted single-digit returns, midcap funds averaged 11.4 per cent. "Despite taking higher risks, investors in mid- and smallcap funds did not receive proportionately high returns this year," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

Debt funds benefited from easing interest rates in the latter half of the year. "The inverse relationship between bond yields and prices worked in favour of bond investors," says Ajay Kumar Yadav, chief executive officer and chief investment officer, Wise Finserv.

FY25: REAR VIEW

Gold was this year's outperformer. "Gold funds gave exceptional returns, driven by global uncertainties and a weak rupee," says Atul Shinghal, founder and chief executive officer, Scripbox. Yadav says the year underscored the value of diversifying across equity, debt and gold.

What lies ahead

Mid- and smallcap valuations are not yet attractive. "Investors should avoid an aggressive approach towards these sub-asset classes," says Dhawan. Yadav adds that those overweight on these funds, with a higher portfolio exposure, should pull back on their holdings.

Investors should tilt portfolios towards largecap funds. "They offer relatively attractive valuations and stability," says Shinghal. Vaibhav Porwal, co-founder, Dezerv, highlights the importance of selecting fundamentally strong companies amid the current volatility. Those with over 20 per cent of their equity portfolio in United States (US)-focused funds may consider booking profits. "US largecap valuations are elevated and vulnerable to correction. Redeploying those proceeds into Indian largecap funds, where valuations are relatively more reasonable, would be prudent," says Yadav.

HOW DIFFERENT FUNDS FARED

FY25 category returns (%)

	Min	Max	Average
Largecap funds	-1.6	27.1	7.3
Midcap funds	-2.4	20.2	11.4
Smallcap funds	0.8	21.4	9.1
Liquid funds	7.0	7.5	7.4
Corporate bond funds	7.8	9.0	8.7
Gilt funds	8.8	10.2	9.5
Gold ETFs	30	31.7	30.8

Returns of funds are of direct, growth plans. Source: Navigation RA

Interest rates appear to have peaked. "This opens up opportunities in long duration debt funds, gilt funds, and dynamic bond funds," says Yadav.

Limit gold exposure to 10-15 per cent.

Rebalance to limit risk

Market fluctuations often skew investors' strategic asset allocation, making rebalancing essential. Dhawan says it allows investors to capitalise on market shifts by reallocating from overvalued to undervalued assets. It also discourages momentum chasing.

"Rebalancing ensures that your portfolio stays aligned with your financial goals and risk profile, especially amid macroeconomic shifts," says Yash Sedani, assistant vice president of investment strategy, 1 Finance.

Ideally, use fresh capital to rebalance, thereby minimising tax and exit load. "But if an investor is significantly overweight on an asset class, then allocating fresh investments to underperformers may not suffice and selling outperformers may be required," says Dhawan.

Investors nearing financial goals must gradually shift to safer assets.

Navigating the current environment

Investors must remain mindful of heightened uncertainty abroad. "Tariff-related concerns could contribute to market volatility," says Yadav.

India's long-term outlook remains promising. "The positives include more monetary easing, fiscal deficit reduction to 4.4 per cent by financial year 2025-26 (FY26), consumption boost from tax relief, and a healthier banking sector and corporate balance sheets," says Porwal.

With the ceiling on international investments being reached, investors must be cautious. "Keep this in mind before selling your US investments to rebalance your portfolio. Repurchasing those assets may not be easy," says Dhawan. In debt, take limited exposure to high-risk categories like high-duration and credit risk. Match investment horizon with the fund's average maturity for the bulk of the portfolio. Stick to quality debt.

With the government discontinuing sovereign gold bond issuances, investors must opt for alternatives. "Gold exchange traded funds (ETFs) and gold mutual funds have grown in popularity as they offer liquidity, cost efficiency, and tax benefits, compared to physical gold," says Sedani.

Taxpayers under the new regime now pay zero tax on income up to ₹12 lakh. A part of this surplus should be invested.

Return expectations from equities must be realistic. "A 13–15 per cent return over the long term is reasonable," says Porwal. Continue systematic investment plans (SIPs) amid volatility.

Sedani stresses mapping assets to goals and going for safer debt-based options for short-term goals. Yadav advises evaluating individual fund performance relative to benchmarks and ensuring diversification of the portfolio across asset classes, sectors, and geographies. If emergency fund has got depleted, top it up.

Shinghal recommends ensuring nominations are up to date and know your customer (KYC) norms have been met. He also suggests ensuring adequacy of insurance coverage.